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# **Towards an Organisational Perspective on Party Funding: Explaining Financial Transfers from MEPs to their National Parties**

Nicole Bolleyer

Siim Trumm

Susan A. Banducci

## **Abstract:**

Which European Parliament (EP) parties are able to extract regular donations from their MEPs' salaries and if they extract donations how great are they? In the literature on party finances, there has been a lack of attention paid to the use of salaries of elected representatives as a source of funding. This is surprising given that the national headquarters of many parties in Europe regularly collect 'party taxes': a fixed (and often significant) share of their elected representatives' salaries. In filling this gap, we theoretically specify two sets of party characteristics that account for the presence of a taxing rule and the level of the tax respectively. The presence of a tax depends on the basic 'acceptability' of such an internal obligation that rests on a mutually beneficial financial exchange between parties' campaign finance contributions to their MEPs and MEPs' salary donations to their parties. The level of the tax, in contrast, depends on the level of intra-organisational compliance costs and parties' capacity to cope with these costs. Three factors are relevant to this second stage: MEPs' ideological position, the size of the parliamentary group and party control over candidate nomination. Our framework is tested through a selection model applied to a unique dataset covering the taxing practices in parties across the EU member states.

**Keywords:** Party funding, intra-party dynamics, informal party practices, parliamentary pay, party-state relations

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## Introduction

In modern democracies, appropriate pay for parliamentarians is provided to attract qualified candidates. Theoretically it should also allow citizens from poorer backgrounds to hold seats in parliament, a responsibility that in most advanced democracies constitutes a full-time job. In other words, good parliamentary salaries make these positions more attractive and accessible for candidates from all corners of society (Best and Cotta 2000). Clearly, these payments are *not* intended to constitute an additional source of party income and yet in many advanced democracies they often are exactly that. This paper develops an actor-centred approach that specifies the conditions under which political parties systematically extract rent from parliamentary salaries. It further tests this approach against a set of hypotheses derived from an institutionalist perspective, using a novel dataset on the salary transfers from representatives in the European Parliament (MEPs) to their national parties.

Similar to the use of parliamentary staff for constituency work or the transfer of money attributed to parliamentary groups to their party organisations (e.g., Johnston and Pattie 2009; Nassmacher 2009; Sickinger 2009), the practice of asking parliamentarians for regular donations from their salaries to party coffers is considered an ‘indirect party finance’ (Biezen 2003) and is one of many strategies of parties to access resources informally. While these informal party practices are not necessarily illegal, they fall into a grey zone, in which the actual usage of resources is only vaguely specified or, if partisan use is – in principle – prohibited, not effectively monitored. Unlike the study of formal state funding for political parties (e.g., Katz and Mair 1994; Pierre et al. 2000; Casas-Zamora 2005; Scarrow 2006; 2007), the informal access of political parties to state resources has received relatively little attention in cross-national research (see, for exceptions, Blondel 2002; Nassmacher 2009; Kopecký et al. 2012). One obvious reason for this lack of attention is that such practices are rarely legally regulated but form part of informal and often hidden intra-organisational processes whose study requires intensive data collection.<sup>1</sup> The resulting lack of data and understanding is problematic because the informal usage of state resources by political parties has become increasingly contested in many advanced democracies and thus is a highly salient issue. This development reflects a growing delegitimation of partisan or politicised modes of government

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<sup>1</sup> The practice - when read as one expression of party control over parliamentarians – has strong normative repercussions. Especially where elected representatives’ free mandate is constitutionally guaranteed, such as in Germany, the practice is contested (Nassmacher 2001).

as well as of political parties as core actors in the democratic process (e.g., Allen and Birch 2011; Dalton and Weldon 2005; Mair 2007; Hopkin 2004).

Numerous parties in established democracies oblige party members who enter public office, thanks to their support, to regularly donate a specific share of their salary to party coffers (e.g., Nassmacher 2001; 2009; Koole and Gidlund 2001; Pedersen 2003; Sickinger 2009). These payments complement other sources of finance and can constitute a considerable share of party income. In Germany, for example, taxes make up an average of 10% of party income<sup>2</sup>. They also provide a core source of income in Luxemburg and Poland (e.g., Nassmacher 2001; 2003; Walecki 2005; Wivenes 1992). This paper accounts for, first, whether or not parties regularly collect a fixed share of their MEPs' salary and, second, if such a rule exists, the share of the salary given to the party. There is considerable variation among parties along these two dimensions. Of the 124 parties covered in this article, 84 parties have established an organisational rule to systematically draw on MEP salaries. When such a practice is established, the 'tax share' on MEP base salaries varies both across parties representing the same country in the EP as well as across countries: the level of taxation ranges from 0.3% to 88%.<sup>3</sup>

Rather than exploring the role of this particular income source as compared to other sources of party finance (such as direct state funding or private donations) for the maintenance of individual parties, which would require a series of in-depth case studies<sup>4</sup> (e.g., Cordes 2002), we deliberately approach 'party taxes' from an actor-centred perspective to be able to specify core factors that shape parties' relative capacities to access this potential income source. The *actor-centred approach* we propose in this paper starts from the fundamental dependency relationship between a party organisation and its representatives, a relationship that cannot be reduced to a simple hierarchy. The balance of power between these two party units is shaped

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<sup>2</sup> This figure does not include contributions by local councillors (Nassmacher 2001; 2009).

<sup>3</sup> Four parties included in our analysis collect over 60% of their MEPs' salary, all of them far-left parties that do not allow their representatives to earn more than an average industrial worker. These parties include Sinn Féin in Ireland, the French Communist Party and the Socialist Party in the Netherlands.

<sup>4</sup> Comparable data on national party budgets across a wider range of established democracies is not available. It is even more difficult to pin down the importance of this income source for a party organisation as a whole. Tax share paid by different types of elected office-holders often vary considerably within the same party, depending on the level the former are located on and on the party unit that accesses particular salaries. National MPs – if the tax is collected by regional headquarters rather than the national executives (which is not uncommon in federal systems) – will pay a share that applies to all MPs coming from their region, while MPs from other regions are exposed to different tax shares. The fact that MEP contributions tend to be monopolised by national headquarters facilitates a comparative assessment across a wide range of cases considerably, since in the study of national MPs' contributions, looking at the share paid to national headquarters would underestimate a party's capacity to draw on national MP salaries, because it is often the regional parties that are the main beneficiaries (see for various in-depth analyses, Bolleyer and Gauja 2011; Bolleyer 2012).

by two sets of party properties that follow distinct rationales, one underlying the presence of a taxing rule (the basic acceptability of such an internal obligation), the other driving the level of the tax collected (the capacity to cope with the respective compliance costs). We contrast this actor-centred approach with hypotheses derived from a rivalling *institutionalist perspective* stressing contextual constraints rather than intra-organisational dynamics, a critical test which substantiates the organisational perspective on party funding we propose.

As it stretches beyond the formal-legal dimension of party-state relations, our account of the partisan usage of parliamentary salaries enhances our understanding of the informal. Furthermore, an account of the relative capacity of political parties to access parliamentary salaries as an income source allows us to capture one element of the power relations between distinct party subunits, in our case the national party executives and their elected representatives operating in the European parliament. With the exception of some small-n comparisons, these internal dynamics - reflecting the stratarchical nature of contemporary party organisation (Carty 2004) - have not been explored in cross-national work. Whereas the party finance literature – with its predominantly formal-legal focus – tends to (implicitly or explicitly) approach parties as unitary actors, our theoretical approach developed below focuses on parties' internal life. Preferences of a party towards accessing various types of and a larger quantity of state resources are often implicitly considered as uniform and consequently not driven by intra-organisational dynamics. We argue on that other hand that strategies of party finance are shaped by intra-organisational, *distributive conflicts between functionally defined party subunits*.

The study of MEP taxing, in particular, captures a vertical *transfer across governmental levels* from MEP to national executives, exploring one aspect of parties as multilevel structures that have to operate across various governmental layers (e.g., Deschouwer 2003; Thorlakson 2005; 2009). By doing so, our study naturally speaks to EU scholars. While the EU literature indicates that national parties still exercise considerable control over MEPs through their control over candidate nomination and selection, the consequences of such influence are usually examined in terms of MEPs' legislative behaviour only (e.g., Bardi et al. 2010; Carey 2007; Luther 2007; Hix, Noury and Roland 2007). Our paper complements this research by showing how parties use their influence to informally extract financial resources from their MEPs. In fact, as parties on the left tend to show higher levels of party discipline in the EP than parties on the right, our study examines whether they can also extract higher fiscal transfers from their MEPs.

Finally, our study has implications for prominent theories of party organisation and change. These theories argue that, within contemporary party organisations in advanced democracies, the party in public office has increasingly strengthened its position at the cost of the extra-parliamentary party (Katz and Mair 2009), a claim that has received support in the literature (e.g., Katz and Mair 1994; Detterbeck 2002). However, the extra-parliamentary party's capacity to extract money from parliamentarians implies a power relation that is inconsistent with this trend. While our study – with its focus on inter-party differences – does not re-examine the validity of earlier findings, it stresses the need to systematically consider sources of office-holders' dependency on their party organisations. While there are excellent studies on candidate selection and these mechanisms' (normative and empirical) implications for power relations within parties (e.g., Katz 2001; Lundell 2004; Bardi et al. 2010; Hazan and Rahat 2010), the study of intra-organisational fiscal transfers adds another important dimension to understanding the relationship between office holders and party organisations.

In the following, we present our theoretical framework, which is tested using a unique dataset that covers taxing practices in 124 parties across 27 EU countries. To do so, we run a selection model, which reflects our conceptualisation of party taxation as a decision process with different motivations driving the decision to tax versus the decision how much to tax. We conclude with a summary of the findings and their wider repercussions for the future study of party-state relations.

### **Theorising party taxes from an actor-centred perspective**

We speak of a 'taxing regime' or a 'party tax' on parliamentary salaries if a party has established an intra-organisational rule (which might be formally specified in its statutes or only communicated informally) that expects parliamentarians to regularly donate a fixed share of his or her public salary to the party's coffers (e.g., national or regional headquarters). While the definition can be, in principle, extended to any type of office-holder entering a paid position through party support (e.g., senior public officials), this study is restricted to the taxing of elected office-holders, more particularly Members of the European Parliament (MEPs). Party taxes involve some element of compulsion, whether this is couched as 'compulsory' or presented as a 'rule of appropriateness'. The criteria of regular and stable payments that are standardised with regard to specific types of public office-holders<sup>5</sup> exclude any one-off

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<sup>5</sup> Tax shares for regional and national MPs are often different within the same party, while shares imposed on particular types of office-holders by the same party unit are not, except when linked to special functions leading

payments driven by individual preferences that are decoupled from the more general intra-party dynamics between the core party units. In line with our conceptualisation of party taxes, our approach to this phenomenon must start from ‘within’ the party as collective actor.

### **Basic assumptions: The balance of power between party and parliamentarian**

At the heart of taxing regimes lies a distributive conflict between parliamentarians and their party: Parliamentarians can be assumed to be reluctant to give up (especially large) parts of their salary. Parties as organisational actors that face considerable financial pressures, in contrast, can be assumed to be per se interested in accessing this resource, which as long as a party wins a certain share of seats in parliament constitutes – similar to direct state funding and unlike private donations for instance – a relatively reliable source of income. If parties have the organisational capacity to oblige parliamentarians to make these payments, we expect them to do so. Conceptualising a party tax as an organisational obligation placed upon parliamentarians implies that the practice is never fully based on self-regulation: that is, payments are never exclusively based on the individual office-holders’ free choice. Simultaneously, the organisational capacity to collect taxes cannot be reduced to organisational power in the form of outright sanctions either. Parties are voluntary associations and parliamentarians – if organisational obligations are perceived as too severe - might change party or leave politics altogether.

As developed in the following, parties face initially the problem of assuring the basic *acceptability of a taxing rule*, while the share they collect is likely to depend on the *relative costs to assure rule compliance and a party’s capacity to cope with these costs*.

### **When a tax is acceptable: Taxing rules as part of a mutually beneficial exchange**

Assuming that the relationship between parties and parliamentarians is characterised by mutual dependency rather than a clear hierarchy with the party playing the dominant part, we expect those parties to have a taxing regime that creates financial incentives for parliamentarians *to accept* a rule that obliges them to regularly give up parts of their private income. Such incentives become most evident in the size of financial contributions from party coffers to a parliamentarian’s election campaign. As elections and electoral successes are the culminations of politicians’ political activity, it is plausible that the provision of money – as one side of a

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to additional pay taken over by these office-holders (e.g., MPs who take over ministerial posts might pay extra, but again this extra share would be standardised for MPs who take on such a role).

financial exchange that underlies taxing rules - has a direct impact on whether a party has a taxing regime or not. This rationale considers that parties have increasing problems in recruiting qualified personnel, which gives the threat of a parliamentarian to simply exit a considerable weight, if confronted with pressures from the side of his or her party organisation that are perceived as unacceptable.

H1: The more a party contributes financially to its parliamentarians' campaigns, the more likely it is to have a taxing regime on the respective parliamentarians' salaries.

### **How much a party can ask for: The challenge of compliance**

Once a taxing rule is in place, the crucial question is *how much* a party can make parliamentarians contribute, assuming that parties collect as high a share as possible. There is little use in having a rule that cannot be implemented and implementation is more difficult the higher a burden it imposes on parliamentarians. Following this rationale, we expect the tax share to reflect the *relative costs to assure the compliance of parliamentarians* with the specific rule in place and a *party's relative capacity to cope with these costs*. Again reflecting our basic conceptualisation of party taxes as intra-organisational obligation, we a) expect these costs to be driven by party characteristics and b) need to consider the issue from both the tax payers' and the collectors' perspective. Accordingly, we consider parliamentarians' relative willingness to contribute but also a party's organisational capacity to set organisational incentives for parliamentarians to do so. Taking an actor-centred perspective, three factors can be expected to be important: the *ideology of parliamentarians* subject to the practice and the *size of the parliamentary group* are likely to shape compliance costs, while the *organisational control over candidate nomination* is likely to shape a party's capacity to cope with these costs.

Compliance costs are influenced by the relative willingness of parliamentarians to make contributions. Existing case studies have argued that leftism facilitates the collection of party taxes (e.g., Schefold 1992; Nassmacher 2009). Depending on the ideology a party cultivates, it will attract certain types of members and recruit candidates with an orientation favourable towards collectivism and redistribution or, in the opposite, recruit highly individualistic candidates. If a party's ideology cultivates the former, parliamentarians are more likely to consider high taxes on their salaries that support their party organisation as acceptable. If a party's ideology cultivates the latter, high taxes are unlikely.



H2.1: The further left parliamentarians are positioned ideologically, the higher the level of tax they are willing to pay.

Furthermore, the collection of parliamentarians' contributions is a demanding task for party officials, since office-holders often need to be chased up and be regularly reminded of their duty. This is also the case if non-compliance can be a matter of mere neglect rather than of open resistance. Monitoring and enforcement costs are lower if party officials have fewer parliamentarians to deal with. Vice versa, compliance costs increase with the number of office-holders taxed by a party. This is also the case because in smaller groups the level of mutual control (given detailed mutual knowledge among parliamentarians about their compliance) and the effectiveness of shaming and social sanctions to punish free-riding tends to be higher.<sup>6</sup>

H2.2: The smaller the parliamentary group of a party is, the higher is the tax a party can collect from its parliamentarians.

Moving on to a party's relative capacity to assure compliance, one crucial mechanism is a party's control over candidate nomination. The more centralised the nomination process is, the more directly the party executive controls the future fate of individual politicians and the more pressure it can put on parliamentarians that try to evade their financial responsibilities towards their party.

H2.3: The more centralised candidate nomination is in a party, the higher is the tax a party can collect from its parliamentarians.

### **Rivalling hypotheses: Theorising the influence of institutional factors**

Our theoretical approach stresses the importance of party-level variables. To test in how far our approach holds in distinct institutional environments, we formulate four rivalling hypotheses that capture *institutional conditions* that can be theoretically expected to affect taxing practices. They will be introduced as control variables in our later analysis.

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<sup>6</sup> In line with our organisational perspective on party taxes, individual parliamentarians do not negotiate their tax ad hoc. Taxes are specified for particular types of office-holders, often in written form, rules that in many cases have existed since a party's foundation. Since parliamentarians are recruited into a party knowing about the obligations attached to particular roles, a smaller size of the parliamentary group does not strengthen the position of the individual parliamentarian (implying a lower tax share) but, in the opposite, makes it easier for the party to implement demanding taxing rules.

One variable likely to affect taxing practices is parliamentary pay. Although MEP salaries have been standardised since 2009 (and therefore differ from national MPs' salaries), one can reasonably expect that the level of national pay has left its imprint on whatever rule currently applies to MEPs, especially since parties often set up one rule that specifies a tax share for 'members of the parliamentary party', which includes both national MPs as well as MEPs. Parliamentarians who earn higher salaries can be more easily asked for a contribution than parliamentarians whose pay is comparatively meagre. In addition, it is more lucrative for a party to make the effort to collect a share of pay from parliamentarians when salaries are high,

H3: The higher the salaries of national MPs in a system, a) the more likely parties have a taxing regime and b) the more able they are to extract high shares.

Another factor likely to be relevant is whether parliamentarians are able to claim back parts of their donations from the state or not. Similar to parliamentary pay, such a regulation is likely to facilitate the introduction of a tax and parliamentarians can be expected to contribute more willingly, if they can claim tax relief and be compensated for these payments later on.

H4: If parliamentarians can claim tax relief for their donations in a system, a) the more likely parties have a taxing regime and b) the more able they are to extract high shares.

In line with our actor-centred perspective, we consider organisational mechanisms such as control over candidate nomination as important (see H2.3). Yet party control over parliamentarians might be influenced by institutional structures such as the electoral system, or more concretely by the incentives the electoral system generates for pursuing personal vote strategies. Whenever winning a parliamentary seat exclusively depends on party label, party control over candidates and incumbents invited by the institutional setting can be considered high. If the party label widely determines a candidate's fate at elections, while his or her personal characteristics are unimportant, parties can be expected to find it easier to impose organisational rules on the candidate such as the payments of party taxes than if the role of a personal vote is important and candidate characteristics can be decisive.

H5: The less important a personal vote for winning a seat and the more important the party label under the given electoral system, a) the more likely parties have a taxing regime and b) the more able they are to extract high shares.

Finally, the direct elections to the European Parliament (EP) and the possibility of having MEPs serving in this institution are rather new phenomena, particularly for parties in the new EU member states. Parties as organisations might need time to adapt their taxing regimes to those office-holders – such as MEPs – whose salaries they formerly did not have access to. Not all countries covered in this study have been members of the European Union for the same period of time. Some countries gained access to the EU only in 2005, more than 25 years later than some of the founding members. If parties need time to extend existing practices to MEPs, the time they had to do so, depending on their countries' time of entry, needs to be considered:

H6: The longer a party has been represented in the European Parliament, the more time it has had to adapt existing procedures, thus, the more likely it has a taxing rule applying to MEPs.

### **Case selection and data**

The previously highlighted hypotheses are applied to parties that are represented in the current post-2009 European Parliament and that form part of the respective national party systems. Studying taxing practices with regards to MEP salaries has the advantage of specifying the relationship between parliamentarians and their parties across a wide range of countries, with the parliamentarians being embedded and operating in the same institution, reducing the range of factors that might affect taxing regimes. At the same time the exclusion of parties that exclusively operate in the European political sphere reflects our interest in how parties exercise control and extract resources across multiple levels of government.

Our aim was to cover parties across all 27 European Union member states. Acknowledging that parties' internal financial regulations are of a rather sensitive nature and unlikely to be willingly disclosed by many, we approached all applicable parties to maximise the information we could gather as regards their taxing practices. Data was collected during late 2010 and through May 2011 and covered current taxing practices on the basis of the following sources: party constitutions and finance regulations, finance reports as available via electoral commissions (or similar bodies), information provided by party experts, an email survey targeting party head offices and numerous semi-structured phone interviews with party

staff and representatives. These data were complemented by news reports and the existing case study literature. The direct contacting of party actors was essential since as insightful as formal documents are, we found that a party tax can exist informally as an expectation that is communicated to office-holders once they enter office and only specified in internal documentation of the party executive or parliamentary party, which might not be easily accessible to outsiders. It may also be communicated to candidates in a pledge that he/she signs after nomination and that is kept by the leadership (to be potentially used as a ‘reminder’). This situation made the triangulation of different data sources all the more necessary to avoid some of the common difficulties in accessing information about the internal operation of parties, such as questions concerning the accuracy of data and interviewee bias, and to ultimately draw the most reliable and detailed picture of taxing practices across the range of cases.

Overall, we collected information about taxing practices in 124 parties in 27 member states of which 97 parties within 24 member states are included in the later analysis (thus, we have information on both the presence of a tax and the tax share and the control variables). Given the scope of our data, we are confident that the resulting dataset is of a sufficiently representative nature despite dealing with a relatively sensitive issue. Comparing the sample of parties for which we have collected data with the full population of applicable parties represented in the current European Parliament on the basis of their country of origin, the Duncan index of dissimilarity remains 0.22. Similarly, when looking at the ideological origins of the parties represented in our data set, the spread of parties across party families follows an expected trend. The rather extreme post-communist and nationalist parties, for instance, constitute 7% and 5% of the parties in the dataset, whereas liberal and social democratic parties constitute 20% and 21% of the parties. Conservative and green parties occupy the middle ground constituting 11% and 9% respectively. Given the sensitivity that surrounds the internal financing rules of parties, particularly because in some countries parties are prohibited to formally oblige their members to pay regular fixed donations, the collected data cover a wide range of parties and are of a representative nature.

### **Dependent variables: Taxing regime and tax share**

The detailed dataset allowed for a careful specification of two dependent variables: the presence of a taxing rule applying to MEPs and level of tax on their salaries. The simultaneous coding of two dependent variables aims to tap into the hierarchical relationship between the initial and more fundamental decision to introduce a taxing regime as well as the following

decision about the level of tax that is asked from MEPs. Our approach hypothesises that those two stages follow different rationales and are driven by different sets of party-level factors.

Following our definitions introduced earlier, our first dependent, or selection, variable *presence of tax* measures whether a party has established an organisational rule that obliges MEPs – as one particular type of elected representatives<sup>7</sup> - to make regular donations to the parties.<sup>8</sup> If such a rule is in place and applies to MEPs, we coded a party as 1, otherwise as 0. It is necessary to note hereby that the abovementioned rule does not include the very common requirement to pay membership fees or refer to any donations paid voluntarily by MEPs. In line with our conceptualisation, an expectation of regular donations needs to be communicated to the MEPs by their parties for a taxing regime to exist.

Our second dependent variable *level of tax* is measured as a percentage that the expected regular donations to their national party constitute of the MEPs' pre-tax monthly base salaries of €7956.87, ranging from 0% to 100%.<sup>9</sup> According to the changes in the parliamentary pay regulations in 2009, this base salary is consistent across all MEPs. Similar to defining and measuring the presence of tax, this level of tax does not include any membership fees that party members might be liable to regularly pay or any voluntary donations paid by MEPs in addition to what the party expects from them.

### **Explanatory variables**

We have operationalised *parties' campaign contributions* (H1) as the proportion of campaign spending that candidates, on average, perceived themselves to have received from their parties at the 2009 European elections. Candidates indicated the share as a percentage and, therefore, the variable ranges from 0% to 100%. *Party control over candidate nomination* (H2.3) was captured as the degree of control that the candidates, on average, perceived their parties' central

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<sup>7</sup> We do not distinguish whether there is a particular tax share specified for MEPs or whether MEPs are considered as part of the parliamentary party, implying national MPs and MEPs pay the same share. Crucial is that, in line with our theoretical definition, parties expect a standardised tax share from their MEPs.

<sup>8</sup> A specific share can also be formulated in terms of a minimum requirement.

<sup>9</sup> Our study of MEP contributions already indicates that 'tax collector' and 'tax payer' are not necessarily located on the same governmental level. An encompassing study of taxing practices referring to various types of elected party representatives required to pay a tax requires taking into account multiple organisational layers operating within the same party and their interplay. Not only can the salaries of different office-holders be taxed differently but those payments can be collected by different organisational units. Furthermore, the same type of office-holder (e.g., national MPs) might be taxed by different units simultaneously (national, regional and/or local) simultaneously. This means that focusing, for instance, only on the income of the national headquarters and the taxing of national MPs would generate a misleading picture, since the national headquarters in federal systems often do not have access to national parliamentary salaries or take only little from them (e.g., Bolleyer 2012). As mentioned earlier, this complication does not exist with regard to MEP contributions which are, with rare exceptions, fully controlled by the national party headquarters.

leaderships to have had over the nomination process, and ranges from 1 to 5 where 5 indicates that the party leadership is very important. Both measurements were obtained from the 2009 EES Candidate Survey in order to use the opinions of the candidates themselves, since they have first-hand experience over how strongly their parties control the different aspects of candidacy (EES 2009).<sup>10</sup> To specify parliamentarians' *ideological orientations* (i.e. their relative willingness to contribute) (H2.1), we used the self-perceived locations of the candidates who stood at the 2009 European elections on the traditional left-right scale.<sup>11</sup> The left-right ideological position is an appropriate choice of measure since it incorporates values that are particularly relevant when assessing the role of party taxes as redistribution means from party elites in public office to the party organisation – the general orientation in favour of collectivism, equality and redistribution. The measurements for the variable were obtained from the 2009 EECS and operationalised as the average placements of the candidates on the left-right scale (EES 2009). We opted for using the candidates' self-perceptions rather than their perceptions of parties as these refer better to the relative willingness of the particular party members to see parts of their salaries redistributed to party coffers to support the party as a whole.<sup>12</sup> The resulting values range from 0 to 10, with higher values when the party is located further to the right, which means that we expect a negative relationship between *Policy Position* and *Tax Share*, i.e. the further right the party, the lower the tax collected. Given that the national party organisation – as a main tax collector – tends to be involved in implementing rules with regards to MPs as well as MEPs and similar rules tend to apply to both groups, we measured the *Size of the Parliamentary Group* (H2.2) in absolute number of seats in the first house of Parliament in 2010 plus the number of MEPs.<sup>13</sup>

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<sup>10</sup> We acknowledge that scholars have already carried out very valuable research on the internal party rules on candidate selection (e.g., Bardi 2010). However, for the purpose of this study the reliance on EECS data is preferred as we theorise that it is the perceived – rather than objective – degree of control that predominantly shapes the interactions between the MEPs and their national parties.

<sup>11</sup> We relied on the ideological self-placements of all candidates – rather than the sub-set of the elected candidates only – to avoid missing data. The reliance on all candidates' self-placements allows us to study 97 cases, whereas the reliance on elected candidates' self-placements would have allowed us to study 53 cases only. At the same time, the reliance on all candidates' self-placements rather than elected candidates' only does not introduce bias to the analysis as the correlation coefficient between estimates based on candidates and then on elected candidates – 0.9 – is both strong and positive. Furthermore, this approach actually helps to avoid introducing selection bias by ensuring that smaller national parties – the smaller the parties the less likely that their MEPs have answered the EECS – are also represented in our analysis.

<sup>12</sup> Although there are alternative data sources available for estimating ideological positions – e.g., the 2010 MEP Survey (Farrell, Hix and Scully 2011), the EECS has an important advantage. Incorporating 1576 survey responses from candidates of 232 parties, the EECS is a very comprehensive data source and allows us to minimise the problem of missing data.

<sup>13</sup> Naturally party seat strength varies from election to election, yet the changes are usually not of such a kind to change the prevalent dynamics in a parliamentary group drastically.

## **Institutional variables**

The control variables as specified by our rivalling hypotheses (H3-6) are measured in the following manner: To capture levels of *parliamentary pay* we used the basic monthly pre-tax salary in thousands of Euros of a rank-and-file MP in each of the countries in 2010 or 2011, gathered predominantly from national Parliaments' information services.<sup>14</sup> To capture *tax relief* for donations, we used the most recent IDEA data that covered most of the countries regarding whether political donations are entitled to tax relief (coded 1) or not (coded 0) complemented by own data (IDEA 2011).<sup>15</sup> We measured *duration of EP representation* of a party through number of years since a party's first candidate was elected to the EP (wherein the direct predecessors of the later reformed, merged, or split parties were treated as same parties). Finally, to capture the differences in the *electoral systems* used across the EU, we used the report provided by the EP's Directorate-General for Internal Policies to differentiate between countries which used closed, ordered and open lists at the 2009 European elections (European Parliament 2009). (The definition of all variables is given in the Appendix).

## **Modelling party taxation as a two-stage process**

We are using a selection model with clustered standard errors to model party taxation – simultaneously both the existence of the taxing regime as well as the level of the tax. This choice reflects the two-stage process that we theorise to shape taxing practices. It further addresses the implications resulting from the hierarchical data structure that is being relied on.

We argue that modelling level of taxation is best represented by a selection model where the decision to tax represents the selection phase and the level of taxation represents the outcome stage in a selection model. Modelling the level of taxation alone would bias the results due to a censored sample as the latter would not include parties that did not tax. This problem is analogous to the problem that emerges when predicting wage levels and leaving out unemployed people. Using the selection model, we avoid the problem of a censored sample as all parties, whether they tax or not, are included. On the other hand, if we modelled the level of taxation and gave a value of 0 to those parties not taxing, we would be treating the increase

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<sup>14</sup> We are aware that generous expenses can lead to a de facto higher compensation of MPs than the base salary indicates. However, since the parties themselves usually use the base salary as the 'tax base' (i.e. they take 5% of the gross salary), we considered this measure as most appropriate. Parties might tax additional offices as well (e.g., if a parliamentarian gets compensation as leader of the parliamentary group on top of the regular salary) but again they usually orient themselves at the salary of a normal MP.

<sup>15</sup> We checked whether party taxes (i.e. donations by office-holders) are treated as political donations under the given regulation and if necessary corrected the data accordingly. Austria, for instance, does not have a general relief for political donations as indicated by IDEA data but MPs can claim a considerable part back as expenses.

from a 0 to a higher unit in the same way as a transition from one level of taxation to the next level of taxation. The decision to tax (moving from 0 to a higher level), however, is fundamentally different from moving from one level of tax to another. Therefore, in order to model the impact of party strength and ideology, we argue that it is best to treat our dependent variable as a two stage process with the first stage being selection (presence of a tax) and the second stage the outcome (level of taxation). This process encompasses the decision to tax and then, on that basis, the level of tax, which is in line with our conceptualisation of each stage being driven by a distinct rationale and thus distinct sets of party-level variables.

Heckman selection models are readily available means of estimating models with data where there is an interval level value for the dependent variable (Y) when the value for another variable (Z) is 1, and have been widely used in research projects where a two-step approach has been necessary. A well known example is models predicting the decision to vote in contexts where voter registration is required (e.g., Achen 1986; Sigelman and Zeng 1999; Timpone 1998). Voter registration is a necessary first step to voting in the United States and models that do not account for this may misestimate the impact of a range of independent variables. Selection models have also been employed in international relations when modelling conflict escalation. The selection model predicts the onset of conflict in the first stage and the level of conflict in the outcome stage of the model. This is similar to our use where the ‘onset of taxation’ is the selection stage and the level of taxation is the outcome stage. Treating the taxation model as a two-step approach, the Heckman selection models allow us to test whether the processes of establishing the taxing regime and setting a level of tax are in fact of contrasting nature and do tap into different aspects about the parties as we theorise they do. As such, the choice of method follows well the theoretical background to the subject matter.

The reliance on Heckman selection models is also important because it allows us to account for the hierarchical nature of the data structure. Using a multivariate setting to model taxing practice with some of the control variables being country- rather than party-level variables, it is essential to account for the contextual variation embedded within the countries that the parties operate in. Using the Heckman selection model that treats countries as cluster variables does exactly that, addressing the hierarchical structure of the data by adjusting the standard errors accordingly. Although there are readily available alternatives for analysing variation within hierarchical data structures, the multi-level regression models and GLM would be unnecessarily complex procedures and they struggle to incorporate the two-step approach that is fundamental to modelling the taxing practice. In addition, their main advantage of providing cross-level interactions is not focused on in the context of this paper, making the



Heckman selection model with clustered standard errors our preferred choice of method. We believe that it addresses well the theoretical foundations linked to the process of establishing a particular taxing rule, and the hierarchical nature of our data.

### **Overview of taxing regimes and tax shares**

Our data shows that the establishment of the institutionalised tax regime is indeed a very widespread practice across parties whose members have been elected to the European Parliament. Out of the 124 parties that we gathered information about regarding the existence of the taxing regime, as many as 84 (68%) do expect regular fixed donations from their MEPs.

This practice is not confined to parties from certain countries or of certain ideological appeal. Looking at sub-samples of parties from the pre-2004 EU member states and the 2004/2007 accession countries, 71% and 62% have a taxing regime respectively. Similarly, when dividing the parties into ten different sub-samples based on the party families, all those sets include parties that have already established the taxing regime (see Appendix).

Our research shows the taxation not to be of a symbolic nature but representing fairly high proportions of MEPs' salaries. If such a taxing regime has been established by the party, the average tax share collected by them is as high as 11% of the MEPs' base salaries. Those average donations would constitute monthly payments of approximately €880 from each MEP. Even when excluding the influence of the few extreme outliers and taking the mode of the tax share as the point of reference, the average monthly payments would still account for approximately €520 and constitute as much as 6.5% of the MEPs' base salaries. At the same time, the level of tax varies considerably. The standard deviation is as high as 15% and the share collected from the MEPs' salaries ranges from 0.3% to 88% which correspond to monthly payments of approximately €25 and €7010. Looking at variation within specific sub-sets, it is the parties from the pre-2004 member states who have been somewhat more successful in adopting higher levels of tax in comparison to their counterparts in the 2004/2007 accession countries with the respective averages being 12.8% and 5.5% of the MEPs' base salaries.

## Explaining taxing regimes

Table 1 sums up the basic insights from the multivariate analysis and shows that all variables specified in our approach affect the taxing regime as theoretically expected.<sup>16</sup> Each variable affects only one stage of the process and confirms the distinct rationale associated with this stage. The importance of party-level variables further substantiates our actor-centred perspective.

Taking a closer look at each of the stages, the likelihood that a party has a tax is significantly affected by the extent to which MEPs belonging to a party perceive *their election campaign to be supported financially* (H1) by their national organisation. In other words, the more a party supports its MEPs financially, the more likely it is that a redistribution of MEP salaries back to their national party is acceptable. The only other factor that significantly shapes the likelihood of parties to have a tax is an institutional one: the higher the *parliamentary pay of national MPs*, the more likely a party is to tax its MEPs. While a party's contribution to campaign finance constitutes one side of the exchange and the acceptance of a taxing rule by MEPs the other, a high salary makes this exchange more beneficial or, vice versa, less costly from the MEPs' point of view. As mentioned earlier, MEP salaries were standardised in 2009. However, prior to 2009, MEPs received the same salary share as national parliamentarians in their home country and these varied dramatically. This has left its imprint on the rules that currently apply to MEPs, especially since parties often formulate taxing rules for their 'parliamentary party' which include both MEPs and MPs and organisational rules are often difficult to change, especially if changes have redistributive implications. Indeed, parties might adapt their taxing rules in the future, especially if, as a consequence of the standardisation, their European representatives are now much better or much worse off than their national parliamentarians. But two years after the standardisation of MEP salaries, a link between national pay and MEP taxing is still clearly visible. While this effect was not anticipated by our theoretical approach, the influence of this particular institutional variable still confirms our conceptualisation of the first stage of the process, namely that it is driven by the *acceptability of a taxing rule* which, in turn, rests on *a mutually beneficial financial exchange between party and its parliamentarians*.

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<sup>16</sup> Additional descriptive information on the observed presence of the taxing practice and the share of tax within parties of certain nature – similar parties grouped together on the basis of the relevant explanatory characteristics – can be found in Appendix B.

Table 1: Explaining Party Tax Regimes

	Heckman
<i>Presence of taxing regime</i>	
Duration of representation in the EP	-0.04 (0.03)
Size of the parliamentary group	0.00 (0.00)
Pay of national MPs (*€1000)	0.25** (0.13)
Tax relief for political donations	0.68 (0.56)
Personal vote incentive	-0.09 (0.30)
Policy Position	-0.10 (0.07)
Party financial support for candidates	0.01** (0.01)
Control over candidate nomination	-0.31 (0.24)
Constant	-0.71 (1.01)
<i>Level of tax</i>	
Size of the parliamentary group	-0.06*** (0.02)
Pay of national MPs (in thousands of euros)	-0.48 (0.77)
Tax relief for political donations	4.42 (3.64)
Personal vote incentive	3.44 (3.38)
Policy position	-1.24** (0.60)
Party financial support for candidates	0.10 (0.09)
Control over candidate nomination	7.17** (3.60)
Constant	28.33*** (9.07)
Number of observations	97
Censored observations	31
Uncensored observations	66
Log likelihood	-307

Notes: Heckman two-step selection model with clustered standard errors. Standard errors in parentheses. \*  $p < 0.05$ ; \*\*  $p < 0.01$ .

In contrast, the second stage – accounting for the level of tax – is driven by *the relative intra-organisational costs to assure compliance and a party's relative capacity to cope with them*. The level of tax is not driven by a simple re-distributive logic, since none of the ‘financial factors’ (on the party- or system-level) affect this variable significantly. It is *MEPs' ideological stances* (H2.1) and the *size of the parliamentary group* (including both MPs and MEPs) (H2.2) which affect the relative costs of compliance the parties have to cope with. The increasing size of the parliamentary group increases monitoring and enforcement costs and thereby reduces the level of the tax. The further left MEPs' ideological self-positioning (indicating the relative willingness to support redistributive measures), the higher the tax share their party can collect from them is. The *control over candidate nomination* (H2.3), in contrast, affects the capacity to cope with compliance costs. An increasing centralisation of candidate nomination procedures pushes taxes on MEP salaries upwards, since it enables the party to put pressure on MEPs who try to evade the financial obligations towards their party. All three variables have a significant effect in the theoretically expected direction. Other variables (the institutional

factors as well as campaign finance shaping the presence of a tax) do not reach traditional levels of significance, reinforcing our approach.

Table 2: Predicted Values for Taxing Regime and Level of Taxation

Explanatory variable	Predicted value (1)	Predicted value (2)
Full sample	0.68	10.4%
<i>Pay of national MPs</i>		
Monthly basic salary < €2500	0.44	
Monthly basic salary €2500- €5000	0.54	
Monthly basic salary €5000-€7500	0.72	
Monthly basic salary > €7500	0.90	
<i>Party financial support for candidates</i>		
Party support < 25%	0.49	
Party support 25 - 50%	0.71	
Party support 50-75%	0.75	
Party support > 75%	0.85	
<i>Size of the parliamentary group</i>		
Lowest quartile (<16)		10.3%
16-29		12.9%
29-62		8.1%
Highest quartile (>62)		8.8%
<i>Policy position</i>		
Leftist (0-2.5)		18.8%
Centre-left (2.5-5)		11.5%
Centre-right (5-7.5)		7.7%
Rightist (7.5-10)		4.9%
<i>Control over candidate nomination</i>		
Centralisation score < 2.5		6.1%
Centralisation score > 2.5		13.1%

Notes: Predicted value (1) – average predicted value for presence of taxing regime. Predicted value (2) – average predicted value for level of tax.

To illustrate the effect sizes of the independent variables in the Heckman models, we have produced predicted values for both the taxing regime and the level of taxation based on the results in Table 1. As Table 2 demonstrates, the probability of adopting a taxing regime exceeds 50% when the support a political party gives to a candidate exceeds 25% of total funding. This suggests that MEPs are willing to accept taxation when the level of party support to campaign costs exceeds 25% of total costs. On predicting the level of taxation, ideology has a substantial impact. As parties move from the left to the right the percentage of taxation is predicted to decrease by almost 14 percentage points (from 18.8% to 4.9%). This effect represents more than one standard deviation in the variation of level of taxation across all parties. The differences in predicted levels of taxation are also substantially affected by party

control over the nomination process. Where parties have most control over the nomination process, taxation is predicted to be 7 percentage points higher than in parties that have least control over nominations. Whereas the size of the parliamentary group has a statistically significant negative impact on level of taxation, the effect is small and moving from the lowest to highest values only produces a 2 percentage point change in level of taxation.

## **Conclusions and outlook**

This paper represents a first attempt to explain the relative capacity of political parties to access the salaries of their MEPs as an income source. It proposed an actor-centred approach conceptualising party taxes as an intra-organisational obligation and specified two sets of party characteristics that were expected to account for the presence of a taxing rule and the level of the tax respectively. We theorised that the presence of a tax depends on the basic *acceptability* of such an obligation which is based on a mutually beneficial financial exchange between parties' campaign finance contributions to their MEPs and MEPs' salary donations to their parties. The level of the tax, in contrast, we expected it to be shaped by the *relative compliance costs parties face when implementing this rule and parties' relative capacity to cope with these costs*, two aspects driven by MEPs' ideological position and the size of the parliamentary group on the one hand and by the control over candidate nomination on the other.

We tested our hypotheses drawing on a unique dataset covering taxing practices in 124 parties across the 27 EU member states. The selection model chosen for the analysis allowed us to disentangle the different rationales underlying the two stages. Our analysis reveals that whereas the presence of a tax rests on a mutually beneficial financial exchange between parties' campaign finance contributions to their MEPs and MEPs' salary donations to their parties, the level of the tax is shaped by MEPs' ideological position, the size of the parliamentary group and party control over candidate nomination. None of the institutional variables had a significant effect with the exception of the level of *parliamentary pay* that increased the likelihood of a party to have a tax. While this variable was not included in our framework, it fits the theoretical rationale underlying the presence of a tax, namely that the basic acceptability which provides the foundation of a taxing rule rests on a mutually beneficial exchange. None of the 'financial variables' shape the level of tax, as could have been expected starting out from a simple redistributive model, which would disregard the intra-organisational challenges the implementation of such a rule implies.

To study party taxes is an important enterprise not only because the informal access of political parties to state resources – which the transfer of publicly provided salaries into party coffers is one instance of – is highly contested in many European democracies and the revelation of such practices increasingly erodes citizens' trust in party government (e.g., Allen and Birch 2011; Hopkin 2004; Mair 2007). Our findings contribute to a major debate in party research, namely the one on party cartelisation in advanced democracies, which on the system-level stresses the dependency of parties on state resources and on the party-level points to a shift in the intra-organisational distribution of power towards the elected office-holders, i.e. 'the party in public office' (Katz and Mair 2009; Biezen et al. 2011). Our findings have theoretical implications for both dimensions of the debate. Starting with the intra-organisational implications, the factors shaping the level of tax stress the challenges parties face when extracting rent from elected office-holders (who, everything being equal, prefer to keep their salaries). Because intra-organisational flows of party finance are generally little explored, it is important to understand the inherent conflict of interest between parliamentarians and their organisation when it comes to party taxes. Demonstrating that the ascendancy of the party in public office associated with the cartel party model (Katz and Mair 2009: 756) may not be necessarily detrimental to the power of the extra-parliamentary organisation, we find that most parties extract rent from their MEPs. This is the case even in parties where there is a wide overlap of personnel in public and central office, a practice that reveals an extraction of resources from leading personnel (dominating both the organisation and elected office) and from parliamentary backbenchers.<sup>17</sup>

Finally, moving to the systemic implications, our study of party taxes complements the numerous studies on direct state funding by targeting a wide-spread yet informal strategy of accessing state resources. Documenting and explaining this practice is an important step to assess the true extent of party-state entanglement. This, in turn, leads to question how important party taxes are as one source of party income compared to others, which future research needs to address. Once we are able to provide comparative data beyond individual case studies and are able to measure the extent of both direct and indirect sources of party funding such as party taxes across a wider range of democracies, we will be able to more adequately assess the full extent of parties' dependency on state resources, a theme that has been high on the research agenda for many years.

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<sup>17</sup>For comparative, in-depth studies on the intra-organisational dynamics between party sub-units revealed by taxing rules with a focus on national parliamentarians see Bolleyer and Gauja 2011; Bolleyer 2012.

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## Appendix A: Variables and Measurement

Variable	Definition
DV: Taxing regime	Has the party established a taxing regime (original data) 0 no taxing regime; 1 presence of taxing regime
DV: Level of taxation	Share of expected donations from MEPs' base salaries (original data) 0% no regular donations expected; 100% full base salary
Duration of representation in the EP	How long has party been represented in the EP (European Parliament) Number of years until 2010; range: 1-31
Size of the parliamentary group	How many elected MPs and MEPs come from the party (Parliaments) Number of elected representatives as of 01/05/2011; range: 1-341
Salary of national MPs (*€1000)	MPs' basic monthly pre-tax salary (Parliaments) Thousands of Euros per month in 2010 or 2011; range: €0.9-€11.7
Tax relief for political donations	Are political donations entitled to tax relief (IDEA) 0 no; 1 yes
Personal vote incentive	Electoral system used at European elections (European Parliament) 1 open list; 2 ordered list; 3 closed list
Policy position	Left-right position of party (average of candidates - EECS) 0 left; 10 right
Party financial support for candidates	% of campaign expenditure from party (average of candidates - EECS) 0% no party support; 100% full party support
Control over candidate nomination	Leadership control over nomination (average of candidates - EECS) 1 least control; 5 most control



## Appendix B: Observed Values for Taxing Regime and Level of Taxation

Explanatory variable	Observed value (1)	Observed value (2)
Full sample	11%	70%
<i>Pay of national MPs</i>		
monthly basic salary < €2500	2.9%	
Monthly basic salary €2500- €5000	8.5%	
Monthly basic salary €5000-€7500	7.9%	
Monthly basic salary > €7500	11.0%	
<i>Party financial support for candidates</i>		
Party support < 25%	3.7%	
Party support 25 - 50%	6.5%	
Party support 50-75%	8.2%	
Party support > 75%	16.0%	
<i>Size of the Parliamentary group</i>		
Lowest quartile (<16)		58.3%
16-29		81.8%
29-62		50.0%
Highest quartile (>62)		72.7%
<i>Policy position</i>		
Leftist (0-2.5)		82.6%
Centre-left (2.5-5)		80.0%
Centre-right (5-7.5)		60.7%
Rightist (7.5-10)		55.6%
<i>Control over candidate nomination</i>		
Centralisation score < 2.5		62.1%
Centralisation score > 2.5		74.3%
<i>Party family</i>		
Agrarian		33.3%
Christian democrat	4.1%	77.8%
Conservative	3.0%	36.4%
Green	15.0%	90.0%
Liberal	2.8%	52.2%
Nationalist	4.0%	37.5%
Post-communist	35.5%	92.9%
Regionalist	6.1%	80.0%
Social democrats	6.2%	80.0%
Special interest	23.8%	85.7%

Notes: Observed value (1) – average level of tax. Observed value (2) – percentage of parties that have established the taxing regime.

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